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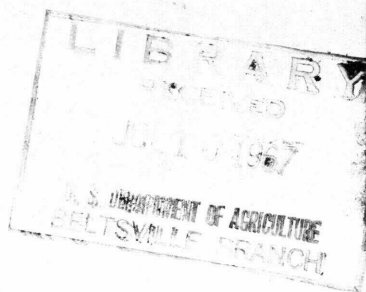
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INSURANCE FACTS FOR FARMERS

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INSURANCE FACTS FOR FARMERS

By Lawrence A. Jones and Edward I. Reinsel, Farm Production Economics Division, Economic Research Service¹

Modern farming requires large investments in land, buildings, livestock, and equipment. Operating costs are high, and use of credit is heavy. Cash income fluctuates and often is unpredictable.

Under these conditions, such events as fires, storms, accidents, illnesses, drought, and lawsuits can be serious financial hazards.

Should they occur, a farmer's income and property values could be reduced and his debts and costs increased—unless he has dealt with such possibilities ahead of time.

RISK MANAGEMENT

Taking out insurance to cover some of the hazards of farming is part of the overall job of risk management.

Risk management consists of identifying the main hazards faced by the business and the family, evaluating any losses each could cause, and deciding how best to deal with each one.

IDENTIFYING RISKS

Farm risks differ with farms and farmers. They vary with location of the farm, organization and type

of production, skill in management, and size and makeup of the family.

In determining risks it may help to inventory your property, study the income and expense aspects of the business, and review your personal and family responsibilities. The losses of others may also suggest the kind of losses that could happen to you.

EVALUATING POSSIBLE LOSSES

In appraising the impact of each possible loss, take into account both the size of the loss and your own financial strength. A loss that might put one farmer out of business may cause little difficulty to another.

Low income, high-fixed payments, and heavy debts are likely to make a loss more serious.

DEALING WITH RISKS

The first step, of course, is to take all practical steps to reduce the chances for loss. This includes such measures as eliminating fire hazards in buildings, using good production practices, giving more

¹This bulleting is a revision of an earlier edition of the same title, authored by Ralph R. Butts, retired.

thought to accident prevention, and taking care of your health.

Next, you may be able to arrange your financial affairs and farm operations in such a way as to minimize the effect of losses. You might want to diversify production, for example, to reduce the impact of loss in a particular crop or livestock enterprise. Or you might want to establish financial reserves or reduce your debts.

There are, of course, limits to the extent to which such adjustments can be profitably made. Diversifying production may be less profitable in the long run than specialization. Establishing too large reserves and reducing debt too much can mean less investment in the business and an operation too small in scale to be efficient.

Some of the risks that remain after you take these two preliminary steps can be dealt with by transferring them to someone else.

Insurance is the most widely used method of accomplishing this transfer. When you buy insurance you pay someone else to assume the financial loss or expense of a fire, storm, accident, illness, or other hazard.

Another way of transferring risks is through rental or contractual arrangements. For example, under a share lease the farmer and the landowner share production uncertainties. Or, under a production contract—such as is often used in broiler production—the risk of price fluctuations is transferred to the processing company.

A final way of dealing with risks is to do nothing about them. Some

potential losses are so insignificant and occur so frequently that they should be treated as day-to-day business costs. And some large risks must be carried by the farmer because no one else will assume them.

WHAT TO INSURE

Few farmers can afford all the insurance protection they might need. Therefore, they should insure first against hazards that would have the most serious financial consequences.

Fire, liability, health, and life insurance are the types most generally needed to protect the farm business and the farm family. In some situations, other kinds of insurance—particularly hail and windstorm—are also desirable. Insurance needs change over the years—as a farmer's situation and responsibilities change.

Choosing the amounts and kinds of insurance to fit your own needs will take study. In working out a sensible insurance program for yourself, you'll probably want to consult with insurance agents of your own choice in whom you have confidence.

Descriptions of the most important types of insurance for farmers are given on the following pages. These descriptions give basic information only.

FIRE AND WINDSTORM INSURANCE

Fire and other property insurance is available from commercial or stock companies and from mutual fire insurance companies operated by farmers.



A farm fire can be a spectacular affair—but a costly one. Fire insurance pays you for any loss up to the amount of insurance carried.

Fire insurance protects against losses from fire and lightning, which can be financially ruinous. A few farmers' mutual insurance companies also include windstorm damage along with fire and lightning.

The basic policy usually protects the house and other buildings against losses from fire. Most companies extend the protection specified in the main policy to cover building contents and other hazards upon payment of an additional pre-

mium (fee). The policy is extended by addition of a supplementary agreement, called a "rider" or an "endorsement."

The most common rider is one called "extended coverage." This provides insurance against damage from vehicles, explosions, riots, smoke, and aircraft. Also included by many companies in this coverage is windstorm and hail damage to all farm property except growing crops.

"Extended coverage" is always issued for the same amount as the amount of the main policy. It costs about half as much as the main policy.

Most commercial companies also offer windstorm and hail damage policies on farm property other than crops separately from fire insurance. The premium rate is usually about 90 or 95 percent of the cost of "extended coverage."

Another common rider to fire insurance policies is one that extends fire and lightning coverage to household contents.

Riders are also used to make changes in the main policy. One rider, for example, may permit the family to be away from the insured property longer than the time specified in the main policy. Another may extend the term of insurance—say from 1 year to 3—on payment of an additional fee.

Many insurance companies sell a package insurance policy that includes fire, lightning, "extended coverage," and liability insurance. For this, see "Farmowner's Policy," page 13.

FARMERS' MUTUAL COMPANIES

Farmers' mutual fire insurance companies—most of which are in the northern half of the United States—offer relatively low-cost fire insurance on farm property. More than one-third of them also insure against windstorm damage.

These mutuals usually are local, doing business in only a few counties. Practically all of them inspect property before they write a policy—a precaution that reduces the losses that must be borne by the company and so lowers the cost of insurance.

Most of these companies are assessment mutuals. That is, they assess each member his proportionate share of estimated revenue needs. If losses prove to be unusually large, members may be assessed for an additional payment.

Currently, extra assessments are seldom needed because most companies have built up substantial cash reserves.

In some States windstorm insurance can be obtained from mutual companies that write windstorm policies only. These specialized companies are particularly important in some Midwestern States, where they carry a large part of all windstorm insurance of farmers.

Mutual windstorm insurance companies do business in much the same way as fire mutual companies. Usually, however, they do business over a wider area and build up larger reserves.



BN-7726-X

A windstorm can do a lot of damage in a short time.

PAYMENT OF LOSSES

After a fire or windstorm occurs, a sensible farmer protects his property from further damage as well as he can, then notifies his company—usually by telephone. The company will ask him to furnish within a certain number of days a “proof of loss”—which is a statement describing the damages.

In all forms of property insurance the company may limit payment to the cost of repairing or replacing the property less any depreciation. Most companies pay all

losses up to the amount stated in the policy.

A farmer may not get full payment when he files a claim for fire damage if he has done any of the following.

1. Left his property vacant longer than the period specified in the policy—usually 60 days.
2. Increased the risk. For example, he may have stored gasoline in the basement or run a stovepipe through a partition.
3. Taken out an additional fire insurance policy from a second

company without notifying the first.

4. Transferred or mortgaged the property without notifying the company.

DEDUCTIBLE CLAUSES

Many losses from windstorm damage are small. Some companies give the farmer a reduced premium rate if he pays small losses himself. These companies use a deductible clause or a minimum-loss clause.

Under a deductible clause, a specified amount is subtracted from all claims. For example, under a \$50-deductible clause the company would pay only \$25 on a \$75 claim. It would pay nothing on claims for \$50 or less.

Under a minimum-loss clause, the company pays nothing on claims under a specified amount, but pays the full claim for amounts larger than this. If it is a \$50-minimum-loss clause, for example, the company would pay nothing if the damage were \$49, but would pay a claim for \$75 in full.

A farmer who keeps his buildings in good repair is likely to be in favor of such a clause.

PREMIUM RATES

Premium rates of commercial companies for fire and windstorm insurance depend on the use made of the building and the type of roof. For dwellings, rates also depend on the type of wall construction (frame, brick, stucco). In silo insurance the type of wall construction is the only factor considered.

Dwelling contents ordinarily take the dwelling rate; barn con-

tents usually take the barn rate.

Each State uses its own schedule of premium rates, which lists the maximum rates that may be charged. This schedule is prepared by the State rating and inspection bureau and is based on the experience of the bureau's member companies. It must be approved by the State insurance commissioner. A company may file rate changes with the State insurance commissioner and use them when they have been approved. Usually it is not necessary for a farm mutual company to submit its rates to a State insurance commissioner for approval.

Most farm mutual companies still charge all members the same rate, regardless of property insured. Some, however, have begun using classified rates in recent years. Classified rates vary with the probability of loss. For example, a farmer who has installed lightning rods or other fire-protection equipment pays lower rates than a farmer who has not gone to this expense.

Most commercial companies sell 5-year fire insurance policies for 4.4 times the cost of an annual policy—if the premiums are paid in advance; in a few States the savings may be greater.

Also, in most States, the larger insurance companies sell a 5-year policy on which the premium may be paid in five equal installments. The cost of this policy is about 4.6 times the cost of an annual policy. The first installment is payable when the policy is delivered; the other four are due annually thereafter.



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Hail destroyed this field of corn. A crop-hail insurance policy protects against loss.

Three-year policies are also available at comparable savings.

Farm mutuals generally write their insurance for a 3- or 5-year period, but assessments for paying losses are levied each year when necessary.

CROP-HAIL INSURANCE

Hail insurance on growing crops may be obtained from many stock and mutual fire insurance companies and, in some States, from specialized crop-hail mutual insurance companies. In North Dakota and Montana, farmers may also obtain crop-hail insurance from a State-operated hail insurance department.

Farmers carry relatively large amounts of hail insurance on tobacco, wheat, corn, soybeans, and cotton.

This insurance costs a stated sum per crop acre. Premium rates vary by areas and by crops—from 2 percent to 15 percent of the total coverage. Rates depend on the likelihood of the crop's being damaged. This in turn depends on the probability of hail in the area and the maturity of the crop during hail season.

A farmer cannot save money by waiting until late in the season to take out hail insurance because there usually is no reduction in rate. In areas where crop production is risky, however, farmers often post-

pone taking out insurance until they see if the crop is worth insuring. Policies are frequently written for 1 year.

Crop-hail policies differ according to the area and type of crop. Some provide full coverage and others include various kinds of deductible and minimum-loss clauses. The loss payable is the amount of insurance multiplied by the percentage of the crop damaged by hail. Under a full coverage policy, for example, the entire amount of insurance would be paid if the crop was totally destroyed.

Under a 10-percent deductible clause, no payment would be made if hail damage amounted to 10 percent or less of the crop. But if the damage amounted to 25 percent, the company would pay 15 percent, the difference between the actual damage and the deductible 10 percent.

FEDERAL CROP INSURANCE

In some 1,350 counties the Federal Crop Insurance Corporation (FCIC) provides all-risk crop insurance for certain crops. It insures these crops against losses from all natural hazards—such as drought, freeze, excessive moisture, insects, and disease.

It insures certain specialty crops—including citrus, raisins, apples, and peaches—only against particular hazards, such as freeze or wind damage.

Losses caused by neglect or poor farming practices are not covered.

Coverage is limited by law to the cost of producing the crop in the area. Therefore, it does not insure profits for the farmer. It guaran-

tees a specified amount and quality of production and pays for losses when production falls below the guarantee.

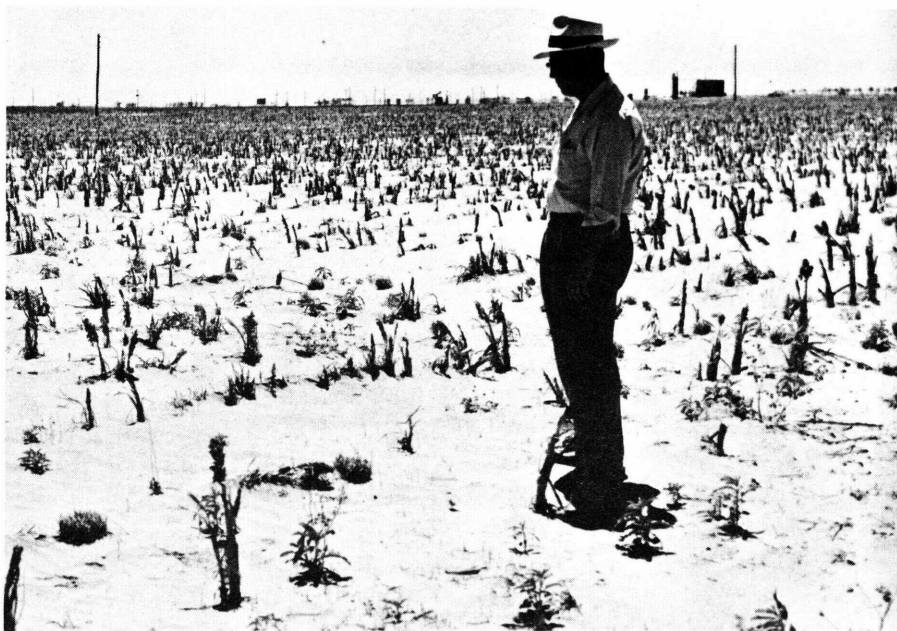
Once a guaranteed yield is established, the farmer can select one of several prices per pound or per bushel as the basis for settling any losses below the guarantee. The higher this price, the higher the premium rate.

For example, assume that a farmer has a choice of \$1.50, \$2, or \$2.50 per bushel and that he chooses \$2. If the guaranteed production for his farm is 1,000 bushels and he produces only 600, he has a loss of 400 bushels. He would be paid \$800—\$2 for each of the 400 bushels.

Federal crop insurance loss payments are made regardless of any payments the farmer may have collected under a hail policy from a mutual or commercial insurance company.

Premium rates for Federal crop insurance are based on estimated losses per acre over a representative period of years. If a farmer has received no loss payment after being insured for 1 year his premium rate is reduced progressively thereafter in each consecutive no-loss year—up to a maximum of 25 percent of premium after 8 years. Premiums charged farmers are only large enough to meet current and prospective losses. Most of FCIC's operating costs are paid by the Government.

Farmers who want to take out all-risk Federal crop insurance must do so before the established closing date for the year. This is usually



Drought causes the greatest crop loss. All-risk crop insurance includes drought coverage.

before planting time. Once a farmer has Federal crop insurance, the policy is automatically renewed each year unless the farmer or the corporation notifies the other of cancellation before the renewal date.

Information about this type of insurance may be obtained from the county FCIC office or from the county agricultural agent.

LIABILITY INSURANCE

Liability insurance protects the insured against his legal liability for death or injury to another person, or damage to the property of another. It pays any court judgment—up to the limits of the policy—that might be obtained by someone who brings suit because of an accident.

To satisfy such a judgment a

farmer could lose his farm or his life savings. Although the risk may seem small, the amount of money involved could be large. For this reason the risk should usually be covered by insurance.

Although a man must be proved liable before a court judgment can be rendered against him, it is usually inconvenient and expensive for him to defend himself in a lawsuit. A person who has liability insurance will be defended in court by his insurance company. The company also pays court costs.

Several kinds of liability insurance are available.

AUTOMOBILE AND TRUCK

Automobile and truck liability insurance is perhaps the most necessary liability insurance for farm-

ers. If taken in adequate amounts it safeguards property and satisfies responsibility requirements of State automobile laws.

Most States now require a vehicle operator to show evidence of financial responsibility after an accident. If he cannot, he may lose his license plates, driver's license, or both. In some States it is necessary to have automobile liability insurance before one can get a license.

The two kinds of automobile and truck liability insurance are (1) bodily injury and (2) property damage. Other kinds of insurance often bought along with these liability insurances are medical reimbursement, collision, and comprehensive.

Bodily injury liability insurance protects you financially if you (or a member of your family) injure someone while operating your vehicle. Most court cases involving injury result in damages being paid to the injured person.

Property damage insurance usually cannot be obtained without bodily injury coverage. It protects you financially if you (or a member of your family) damage another person's automobile or other property while operating your vehicle.

Most property damage policies also protect you if you are driving a borrowed car or if you lend your car to a friend.

The term "10/20/5" means that the policy protects the insured person against damages up to \$10,000 for injury to one person, up to

\$20,000 for injury to two or more persons, and up to \$5,000 for property damage. Additional coverage for bodily injury liability may be increased by payment of a small additional premium. This additional coverage usually is recommended.

Medical reimbursement insurance, usually offered in amounts up to \$2,000 per person, is relatively inexpensive. Such insurance pays for medical, dental, hospital, nursing, or funeral expenses incurred in an accident involving the insured vehicle. The coverage applies to the owner, his family, and other passengers. Payments are often made even when the owner is not responsible for the accident.

Many automobile owners also have comprehensive and collision insurance, particularly if they owe on the automobile. Comprehensive insurance covers automobile damage from such causes as fire, lightning, flood, theft, and breakage of glass.

Collision insurance protects the owner from the expense of damage to his own automobile. Because this is expensive insurance many persons reduce the premium cost by taking out \$50- or \$100-deductible insurance. That is, they themselves stand the expense of any damage up to this amount.

Tractor liability insurance may be bought as a separate policy or as an endorsement on an existing policy for a car or truck. Such insurance is desirable if the tractor is driven on highways.

COMPREHENSIVE PERSONAL LIABILITY

Many insurance companies offer a farmers' comprehensive personal liability (FCPL) policy.

This type of policy protects a farmer who is sued for damages resulting from an accident for which he might be liable. For example, it protects him against suit from injury caused by his dog or other animals, by his own acts, or by the acts of members of his family—on or off the farm.

For an additional premium this policy can be extended to cover acts of farm laborers.

A FCPL policy does not apply to highly specialized farms, such as those for breeding racehorses. Nor does it cover nonfarm businesses.

This policy can sometimes be extended to cover the liability risks of a recreation farm business if a special endorsement is obtained. However, the farmer may prefer to take out an owner's, landlord's, and tenant's policy, described below.

OWNER'S, LANDLORD'S, AND TENANT'S POLICY

Farmers who develop recreational enterprises on their land should protect themselves against possible lawsuits of paying guests who may be injured. A written release signed by the guest is not sufficient protection; it will not serve in all instances as a defense in case of litigation.

An owner's, landlord's, and tenant's (O.L. & T.) policy is the basic policy covering legal liability arising from commercial recreation

businesses. The premium rate on O.L. & T. policies varies widely. It depends on the number of paying guests and the kind of activities they engage in. In some areas O.L. & T. policies may not be readily available.

It is important that a farmer who is considering a recreation enterprise look into his need for insurance and its availability before he starts his business. One source of information is his local property insurance agent.

A more detailed discussion of legal liability and insurance protection for farmers in the recreation business can be found in "Liability and Insurance Protection for Farmers Who Have Income-Producing Recreational Facilities," ERS-120, Economic Research Service, U.S. Department of Agriculture.

FARMOWNER'S POLICY

So-called "package" policies that include personal liability protection (except for motor vehicles) and coverage against fire, lightning, and "extended coverage" perils are now widely available from commercial companies and larger farm mutuals. A farmowner's policy replaces policies covering the separate hazards.

Liability coverage provided is like that of the farmer's comprehensive personal liability policy. Extended coverage perils include wind and hail damage to property other than growing crops and motor vehicles.

Sometimes personal property is also covered against theft and other

hazards—such as damage to farm machinery from overturn and collision, and loss of livestock from electrocution.

A deductible clause may apply to losses from some of the perils. A farmer who wants all the protection provided by a package policy should compare its cost with cost of comparable coverage under separate policies.

EMPLOYER'S LIABILITY

Employer's liability insurance protects the employer if he is sued by an employee who is injured while at work. An injured employee must show negligence by, or show the responsibility of, a farmer before the insurance company will pay the claim.

Often insurance payments to injured employees are made only after the court has awarded a judgment against the farmer. This type of policy provides the farmer about the same protection as workmen's compensation insurance described below.

WORKMEN'S COMPENSATION

Workmen's compensation insurance assures employees of certain payments and other benefits if they are injured on the job. The benefits are established by State law and are paid promptly with a minimum of legal formality. They are paid regardless of who was at fault for the injury.

This insurance also protects the farm operator from lawsuits arising from accidents to hired workers.

Workmen's compensation laws vary among States. In all States except Alabama and Texas, farm employees may be protected under the State law even though farming may not be specifically mentioned in the law.

Only six States and Puerto Rico require farmers to insure their hired workers in the same manner as other employers are required to insure theirs; the States are Alaska, California, Connecticut, Hawaii, Massachusetts, and Ohio. Six other States require farmers to carry this insurance under some conditions; these States are Arizona, Michigan, Minnesota, New Hampshire, New York, and Wisconsin.

Private insurance companies sell workmen's compensation insurance in all except six States and Puerto Rico, where it is available only from a State agency. In 12 States it is sold both by the State and by private companies.

The cost of workmen's compensation insurance varies by size and type of farm and by location. Premiums frequently range between 2 and 4 percent of the payroll. Sometimes there is a minimum charge regardless of the size of the payroll, which makes the rate relatively high for farmers with only one or two hired workers.

Farmers in any State may obtain insurance similar to workmen's compensation from private insurance companies. If an employee is injured on the job, the insurance company pays the employee; the amount of payment depends on the extent of injury. The company also protects the farmer if the em-

ployee refuses the benefits and decides to sue.

If a farmer insures with a State agency he must cover all of his hired workers. If he insures with a private company he may insure only some of his employees if he prefers.

HEALTH INSURANCE

FROM PRIVATE COMPANIES

Many farm families pay for ordinary medical bills out of their income or savings but protect themselves against large unpredictable hospital and medical costs through health insurance.

Health insurance policies generally cover three types of expenses—hospital, surgical, and medical. Insurance against loss of income because of illness or accident is also available.

Health insurance may be bought individually or through group participation. Compared with individual plans, group plans usually offer more benefits for a lower premium cost but a more limited choice of benefits. Group plans usually do not require a physical examination.

The most familiar health plans are those sold by life insurance companies and by Blue Cross-Blue Shield organizations. Group participation in health plans is often sponsored by a farm cooperative, a farm organization, or a nonfarm business. In some rural counties, group insurance is offered through health improvement associations.

In general, very few health plans cover all doctor and hospital bills in full. Benefits offered vary wide-

ly. For example, some policies may provide \$10 a day toward hospital expenses, others \$15 or more. Some medical contracts pay all costs, others only costs over \$100 or \$200. Income policies vary in the period of time the insured has to wait after he is sick or injured before he can collect.

As benefits increase, so does premium cost. Health insurance costs less, for example, if it does not cover routine medical expenses or the first \$200 or \$300 of major medical or hospital expenses. Income policies will cost less if the waiting period is relatively long.

In choosing a health insurance policy it's a good idea to think first of major hospital and medical expenses that could overwhelm you financially. And, if you can't afford health insurance for the entire family, consider it at least for the breadwinner.

Read any health contract you are considering carefully to learn exactly what benefits it includes. Note, for example, what operations and illnesses are covered and what hospital services are offered. Some families will want to make sure of maternity benefits.

If you are approaching 60, check to see whether the company can cancel the policy or reduce benefits when you are older. Ask for one that is guaranteed renewable.

SOCIAL SECURITY HEALTH INSURANCE

Since July 1, 1966, nearly all persons in the United States 65 or older have become eligible for benefits under "Medicare."

This new social security program sets up two health insurance plans—one for hospital insurance and one for medical insurance.

You are automatically on the rolls for hospital insurance benefits if you are 65 or older and are receiving monthly social security or railroad retirement checks. If you are over 65 but not receiving either of these checks you may be eligible for this protection. However, you will need to apply for it.

No one is automatically on the rolls for medical insurance. You must sign up for it during enrollment periods. Your first enrollment period runs for 7 months; it starts on the first day of the third month immediately before the month you reach 65. If you do not sign up during this period you cannot sign up until the next general enrollment period. Currently, the next general enrollment period is the last 3 months of 1967.

No physical examination is needed for those who enroll in either plan. Individuals are not disqualified by earlier illnesses.

Enrollees in the hospital insurance plan pay no premiums. Enrollees in the medical insurance plan pay \$3 a month.

Local offices of the Social Security Administration can provide more detailed information about the plans.

Hospital plan benefits.—This basic plan helps pay costs of hospitalization and hospital-related care.

It covers:

- Up to 60 days in a hospital for each spell of illness—except for the

first \$40. All but \$10 a day of covered costs for an additional 30 days.

- Up to 20 days of skilled nursing care following hospitalization—in an extended care facility, such as a skilled nursing home.

- Up to 100 home health visits by nurses or other health workers for a 1-year period following hospitalization.

- Eighty percent of the cost of hospital outpatient diagnostic tests—except for the first \$20 in each 20-day period of testing.

Medical plan benefits.—This insurance covers 80 percent of the reasonable charges for covered doctor bills and other covered medical supplies and services—after you pay the first \$50 in each calendar year.

LIFE INSURANCE

The four basic kinds of life insurance are: Term, whole or straight, limited-payment, and endowment. Each has many variations and special features.

The last three kinds named differ mainly in the extent to which the premium payments go to build up savings—in addition to buying insurance protection. Term insurance premium payments go entirely for insurance protection.

The best insurance for you may be a combination of two or more kinds.

TERM

Term insurance gives you protection for a limited period—usually 5 or 10 years.

The cost is relatively low because the policy is strictly for protection; it has no savings or cash value. With each renewal, the premium increases. Some term policies require the insured to have a medical examination before renewal.

If you are relatively young and need every dollar's worth of protection you can buy, term insurance is often a good choice. It can provide the extra protection a family needs during the time the children are growing up.

An indebted farmer may want term insurance that would repay his loan if he died. Lenders frequently sell such insurance at the time the loan is made. This credit life insurance may be desirable if you need the protection and it is reasonable in cost.

It is often desirable to buy the kind of term insurance that is guaranteed renewable, or convertible to another type of insurance without a medical examination.

Many people have other types of insurance, retirement plans, or social security in addition to term insurance. As they grow older and their responsibilities decrease, they can drop their term policies.

STRAIGHT LIFE

Straight life, the most widely used kind of life insurance, runs for the insured person's lifetime. It is also called whole or ordinary life insurance. It is the least costly lifetime protection you can get.

The premium for this insurance stays the same each year. Its amount depends on your age when you take out the policy.

Part of each premium goes into savings, and the cash value of the policy increases each year. After the need for insurance decreases the cash value can be obtained for retirement or other purposes.

Usually young families want some straight life insurance as a foundation for a permanent insurance program.

LIMITED-PAY LIFE

Limited-pay life insurance is similar to straight life insurance, except that premiums are paid only for a certain number of years. The payment period may be 20 or 30 years or up to age 65. At the end of the payment period the insurance continues as a paid-up policy.

This kind of insurance is designed mainly for people who do not want to pay premiums as they get older. Its cash value increases faster than straight life insurance, but it is more expensive for the protection received.

ENDOWMENT

In endowment insurance, savings accumulate faster than in other kinds. At a certain date, the endowment policy is paid off to the insured in a lump sum or as income; the insurance protection is then ended.

Because endowment insurance emphasizes savings it is the most costly way to buy insurance protection.

"FAMILY INCOME" AND "FAMILY" POLICIES

The so-called "family income" plan offered by most life insurance companies combines a permanent

insurance policy—usually straight life—with gradually decreasing term insurance. The father of the family is the one insured.

For example, a father is covered by a \$10,000, 20-year policy. If he should die within 20 years, his family would receive \$10,000 plus a monthly income during the remainder of the 20-year period—the time when the income would be most needed.

The so-called “family” policy insures all members of a family under a single contract. Usually the head of the family is insured under straight life insurance and the wife and children under convertible term.

The cost of this policy per \$1,000 is the same regardless of number of children; additions to the family usually are included 15 days after birth.

LIFE INSURANCE TIPS

Basic protection.—Usually it is best to postpone taking out endowment or limited-payment life insurance until your needs for basic protection are met by straight or term insurance.

If you can't afford all the life insurance you need, aim at enough to cover expenses for sickness and funeral expenses and living requirements for your dependents. Keep in mind other sources of income that can be relied on, such as savings, and social security benefits.

The income earner's life is the one to be insured first. Next in importance is insurance on the wife. Wait until these are taken care of before insuring the lives of children.

Ordinarily it is best to buy policies for at least \$1,000 worth of insurance and to pay premiums annually, semiannually, or quarterly. It is an extra expense to the company to issue policies in smaller amounts and to have agents make collections weekly or monthly. This expense is passed on to the buyer of insurance, making the insurance very costly in relation to the protection received.

Available group insurance.—If group insurance is available through a farmers' association to which you belong or at the place where you are employed off the farm, probably you should take it. Usually it is good, low-cost insurance. But consider it mainly as supplemental to your regular insurance because it may not protect you if you leave the association or change jobs.

If you have Government life insurance taken out while you were in the Armed Forces, keep as much of it as you can. It is very low in cost. Consult your nearest Veterans' Administration office before making any changes in it.

Your savings bank, credit union, or fraternal organization may also have group insurance available. If so, check the features and cost of these policies to see if they are a good buy.

Updating insurance. — Review your insurance from time to time to make sure it fits your present needs. You may want to choose a different method of settlement, change beneficiaries, or insure a child born after your present policy was taken out.

When you take out life insurance you sometimes have settlement options. That is, you may choose how the money will be paid to your dependents in the event of your death. The choice may be between a lump-sum payment, monthly income payments, or payments of interest only until the full amount is needed. You may want to change this option as the financial requirements of your family change. If you do not specify an option, your beneficiary usually can decide the method of payment at the time of your death.

Lapsed policies.— Ordinarily, your policy will lapse if you do not pay your premium within 1 month after it is due (the grace period). Some policies, however, include an “automatic loan” provision, under which the company will automatically pay the premium and charge it as a loan against your policy.

Nonforfeiture values.—Most policies—except for those for term insurance—have “nonforfeiture values” if payments have been made for 1 to 3 years.

That is, there is money to your credit in your insurance account. You can turn in the policy and get this amount in cash. Or you can use this credit to buy reduced paid-up insurance or to obtain extended term insurance.

Once you have built up some nonforfeiture value in your policy you may also obtain a cash loan on your policy—often at a favorable interest rate. Of course, if you die, the amount of the loan will be deducted when the company pays your dependents.

ANNUITIES

Frequently people are concerned about how much of their savings they can spend each year after they retire and still have enough to last their lifetime. Buying an annuity may help solve this problem.

By paying a certain sum to an insurance company to buy an annuity, an individual can be assured of a fixed income for life. He may buy an annuity that begins paying him at once or one that starts paying at some later date.

IMMEDIATE ANNUITY

Immediate annuities are designed for older people who have accumulated savings and need an immediate income from them. These annuities must be paid for in a lump sum. Payments by the company to the annuitant begin at once and are made monthly or yearly.

An immediate annuity may be either a life (or straight) annuity or a refund annuity. It may provide income for one person or for two persons or more.

A life, or straight, annuity pays no refunds if the annuitant dies early; a refund annuity pays the balance of the purchase price to the annuitant's estate. Many annuity buyers select the refund type even though they could get more retirement income from a straight annuity.

Under a joint life and survivorship immediate annuity for two persons, the payments to the survivor are the same as payments when both are still alive. Under a joint life and two-thirds survivorship annu-

ity, the payments to the survivor are only two-thirds as much as when both annuitants are living.

Joint annuities, of course, cost more than an annuity for one person.

DEFERRED ANNUITY

Deferred annuities, sometimes called retirement annuities, are usually sold to younger people. They are paid for in installments during the working years; annuity payments begin at retirement age.

In the meantime, installment payments earn interest as savings. If death comes before retirement age, the principal with interest is paid to a survivor.

SURVIVORSHIP ANNUITY

A survivorship annuity is useful to the person who has a much older person depending on him for a living. Under this plan an insured person pays the premium during the joint lifetime of himself and his beneficiary. On the death of the insured, a regular income is paid to the beneficiary (annuitant) during his or her lifetime. If the beneficiary dies first the contract is canceled without refund.

The cost of this kind of annuity is relatively low because the beneficiary is likely to die before the insured person, or not long afterward.

Since this really is life insurance, a medical examination is required of the person to be insured—but not of the annuitant. No medical examination is required with immediate or deferred annuities described above.

SOCIAL SECURITY

BENEFITS

Nearly all farmers and hired workers are covered by social security. People who are covered receive monthly cash benefit payments when they retire or become disabled.

Payments may also be made to a worker's dependents when he retires, becomes disabled, or dies. These dependents are:

- Unmarried children under 18 years of age, or under 22 if they are full-time students.

- Unmarried disabled children 18 or over who were severely disabled before they reached age 18.

- A wife or widow, regardless of her age, if she is caring for a child, disabled or under 18, who is getting payment based on the worker's social security account.

- A wife 62 or a widow 60 or older.

- A dependent husband or widower 62 or over.

- A divorced wife at 62 or a surviving divorced wife at 60, who met the marriage and support requirements when the farmer or farm worker became disabled, or became entitled to benefits, or died.

- A surviving divorced wife, regardless of her age, who meets the support requirements and has in her care his child, under 18 or disabled, who is also entitled to payments.

- Dependent parents, at age 62, of a deceased worker.

The amount of benefits is based on the farmer's or farmworker's

average covered earnings. Examples of the kinds and amounts of monthly benefit payments are given in table 1. Hospital and medical benefits are discussed on page 15.

Farmers under 72 years old who are receiving social security payments can earn up to \$1,500 and still receive all of their social security benefits. But \$1 will be withheld for each \$2 of earnings between \$1,500 and \$2,700; and \$1 will be withheld for each \$1 of earnings over \$2,700. At age 72 full benefits are paid for every month regardless of earnings.

WORK REQUIREMENTS

For you or your family to be eligible for benefits you must have worked under social security for a certain period of time, called work requirement. How long you must work depends on your age and whether you are a man or woman. For example, if you reach age 65 (62 if a woman) in 1991 or later, you will need credit for no more

than 10 years of work. Older persons need credit for fewer years of work under social security. A few older persons can receive benefits with as little as three-fourths of a year of work under social security. "Uninsured" benefits can be paid to people who were born before 1896, even though they never worked under social security. Work requirements for dependent survivor benefits are the same as for retirement benefits, except where children are involved; in that case only 1½ years of work out of the 3 years before death are required.

QUALIFYING FOR DISABILITY BENEFITS

To qualify for disability benefits the work requirement is the same for everybody, except persons who became blind before the age of 31. The general rule is that you need social security credits for 5 years of work in the 10-year period before disability began.

TABLE 1.—Social security monthly benefits at selected incomes

Average yearly taxable earnings ¹	For person retired at 65 or disabled	For wife at 62	For survivors			
			Widow at 60	Widow at 62	Widow under 62 and 1 child	Widow under 62 and 2 children
\$800 or less	\$44. 00	\$16. 50	\$38. 20	\$44. 00	\$66. 00	\$66. 00
\$1,200	63. 20	23. 70	45. 30	52. 20	94. 80	94. 80
\$1,800	78. 20	29. 40	56. 00	64. 60	117. 40	120. 00
\$2,400	89. 90	33. 80	64. 40	74. 20	135. 00	161. 60
\$3,000	101. 70	38. 20	72. 80	84. 00	152. 60	202. 40
\$3,600	112. 40	42. 20	80. 50	92. 80	168. 60	240. 00
\$4,200	124. 20	46. 60	88. 90	102. 50	185. 40	279. 60
\$4,800	135. 90	51. 00	97. 30	112. 20	204. 00	306. 00
\$6,600	168. 00	63. 00	120. 20	138. 60	252. 00	368. 00

¹ Average of years after 1950. Generally 5 years of low earnings or no earnings can be excluded in figuring average earnings.

A farmer or farmworker who meets the work requirements can be paid disability benefits if he has a disability that prevents him from doing any kind of substantial gainful work. The disability must have lasted 12 months or be expected to last for a continuous period of not less than 12 months or end in death. Payments can be made even if the farmer is expected to be able to re-

turn to work shortly after the 12th month.

QUARTER OF COVERAGE

To qualify for a credit of 1 year, or four "quarters," toward social security a farm operator must have net earnings of \$400 or more during the year, or must have received at least \$600 gross profit from farm operations. A hired worker is

TABLE 2.—*Social security tax rates for self-employed farmers, and farm wage workers*¹

Calendar year	Tax per \$100 of taxable earnings	
	Self-employed farmers	Farm wage workers (employer-employee) ²
1965.....	\$5. 40	\$3. 625
1966.....	6. 15	4. 20
1967.....	6. 40	4. 40
1968.....	6. 40	4. 40
1969-72.....	7. 10	4. 90
1973-75.....	7. 55	5. 40
1976-79.....	7. 60	5. 45
1980-86.....	7. 70	5. 55
1987 and later.....	7. 80	5. 65

¹ The maximum earnings on which taxes are paid are \$6,600. These tax rates include old-age, survivor and disability insurance and the basic hospital provisions of "Medicare."

² Employer and employee contributions are the same.

TABLE 3.—*Optional methods for determining farm self-employment net earnings*¹

If gross farm income is—	And actual net farm profit is—	Self-employment income to be reported	
		Regular method	Optional method
Under \$600.....	Less than \$400.....	None.....	None.
Under \$600.....	\$400 to \$599.....	Actual net.....	do.
\$600 to \$2,400.....	Less than \$400.....	None.....	¾ of gross.
\$600 to \$2,400.....	\$400 to \$2,400.....	Actual net.....	do.
More than \$2,400.....	Less than \$400.....	None.....	\$1,600.
More than \$2,400.....	\$400 to \$1,599.....	Actual net.....	\$1,600.
More than \$2,400.....	\$1,600 or more.....	do.....	Actual net.

¹ Maximum earnings to be reported are \$6,600. When combined self-employment earnings and wages exceed that amount, wage earnings are reported first and then self-employment earnings are reported up to a total of \$6,600.

credited with one quarter for each \$100 that he is paid. He can earn four quarters of coverage in 1 year. To get credit, however, a hired worker must earn at least \$150 cash pay, or cash pay figured on a time basis on 20 days or more, from one employer during the year. The maximum earnings each year on which social security taxes are paid are \$6,600.

REPORTING SELF-EMPLOYMENT INCOME

If you are a self-employed farm operator you should report your earnings and pay your social security tax once a year when you file your Federal income tax return. Use Schedule F (Schedule of Farm Income and Expenses) and Schedule SE with Form 1040, U.S. Individual Tax Return, to figure and report your net farm income. Social security tax rates are shown in table 2. Be sure to show your social security number in every place where it is called for, so your record can be properly credited.

On a farm tax return you report your net farm earnings by computing gross farm income less farm expenses. Other ways of figuring the amount to report are summarized in table 3.

If you rent or lease land to someone else, and materially participate in managing farming operations on it, the rent you receive less any farm operating expenses you may have had may be counted as

farm income. Tenants are considered to be self-employed. In case of doubt, get in touch with your nearest internal revenue or social security office.

FIGURING CASH PAY FOR FARMWORKERS

If you do farmwork for others and in 1 year receive cash pay of at least \$150, or receive cash pay figured on a time basis for 20 days or more from one employer, he will deduct the social security tax from your pay and file a report so that you will receive proper credit. Table 2 shows the tax that will be deducted from each \$100 of taxable earnings.

If you do not meet the work test for any one farm employer during a year you will pay no social security tax and receive no credit toward social security. For example, if you earn \$75 in a year not on a time basis from one employer and another \$75 for less than 20 days work from a second employer, none of these wages are reportable or count toward social security. But if you earn \$150 from one and \$150 from the other, both employers report your earnings and you get credit for the total (\$300). Payments to you for farmwork in any form other than cash do not count for social security purposes.

Get in touch with the nearest social security office if you want to claim benefits or get more information.

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